

Message Text

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ACTION EB-11

INFO OCT-01 NEA-10 ISO-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 STR-08 TAR-02 NSC-07

SS-20 CEA-02 SAM-01 DRC-01 FEA-02 INT-08 PM-07 /145 W

----- 026599

R 231350Z APR 74

FM AMEMBASSY BEIRUT

TO SECSTATE WASHDC 7508

LIMITED OFFICIAL USE SECTION 1 OF 2 BEIRUT 4752

E.O. 11652: N/A

TAGS: EIND, EFIN, LE

SUBJECT: FOREIGN INVESTMENT CLIMATE AND STATISTICS: LEBANON

REF: STATE 053993; BEIRUT A70 OF 3/23/73

1. (U) INVESTMENT CLIMATE STATEMENT FOR LEBANON:

WHILE THE REGIONAL MARKET AND THUS THE INVESTMENT OPPORTUNITIES HAVE EXPANDED CONSIDERABLY IN THE PAST YEAR, THE CLIMATE FOR FUTURE DIRECT EQUITY INVESTMENT COULD BE AFFECTED BY A NUMBER OF POLITICAL UNCERTAINTIES. IN THE ABSENCE OF A COMMERCIAL TREATY OR AN INVESTMENT GUARANTEE AGREEMENT WITH THE U.S., PROSPECTIVE AMERICAN EQUITY INVESTORS SHOULD INVESTIGATE CAREFULLY.

LEBANON'S RELATIVE POLITICAL STABILITY AND LAISSEZ FAIRE ECONOMIC AND SOCIAL POLICIES ARE UNDER GROWING PRESSURES FROM SPECIAL INTEREST GROUPS --- PARTICULARLY THE ECONOMICALLY-DISADVANTAGED --- SEEKING MORE RESPONSE TO THEIR NEEDS. ACCELERATING INFLATION OF LATE HAS AGGRAVATED LONG-STANDING GRIEVANCES OVER HOUSING, EDUCATION AND RURAL EMPLOYMENT OPPORTUNITIES. IN THE LIMITED OFFICIAL USE

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ABSENCE OF A PEACEFUL AGREEMENT BETWEEN SYRIA AND ISRAEL,

CHRONIC ARAB-ISRAELI HOSTILITIES ON THE BORDERS AGGRAVATE DOMESTIC POLITICAL FRICTIONS. ILL EQUIPPED FOR PROBLEM-SOLVING, THE GOVERNMENT ACCOMMODATES THE STRONGEST PRESSURES BY AD HOC PALLIATIVES, OCCASIONALLY AT THE EXPENSE OF INTERESTS WITH MINIMAL POLITICAL INFLUENCE. TO SATISFY EVEN PARTIALLY THE COUNTRY'S NEEDS, AN INCREASED GOVERNMENT ECONOMIC ROLE SEEMS LIKELY EVENTUALLY AND NEW POLITICAL ORIENTATIONS AND POLICIES ARE LONGER-TERM POSSIBILITIES.

AMERICAN FIRMS IN LEBANON FOR THE MOST PART ARE REGIONAL SALES AND REPRESENTATIVE OFFICES WITH LITTLE EQUITY EXPOSURE. DESPITE WELL-PUBLICIZED POLITICAL DISTURBANCES DURING THE PAST YEAR, BEIRUT REMAINS THE REGION'S COMMERCIAL HUB. EXISTING FIRMS ARE EXPANDING AND MORE FIRMS CONTINUE TO ARRIVE. THE PRESENT INVESTMENT CLIMATE IN THIS SECTOR IS FAIRLY GOOD, ASIDE FROM SOARING RENTS AND OTHER LIVING COSTS. LABOR COSTS AS WELL HAVE BEEN RISING AND ORGANIZED LABOR IS VIGOROUS AND GROWING, PARTICULARLY IN THE SERVICES SECTOR. WHILE MOST AMERICAN COMPANIES ENJOY EXEMPLARY LABOR RELATIONS, THE GOVERNMENT RECENTLY REVOKED THE WORK PERMIT OF THE MANAGER OF A LARGE AMERICAN FIRM INVOLVED IN A LONG-STANDING LABOR DISPUTE.

AMERICAN INVESTMENT IS GROWING FASTEST IN THE FINANCIAL SECTOR, WHERE THE AMERICAN PRESENCE HAS EXPANDED TO 11 FULLY OR PARTIALLY-OWNED COMMERCIAL BANKS AND 13 BANK REPRESENTATIVE OFFICES DEVOTED TO THE REGIONAL MARKET. AN INFLUX OF FOREIGN BANKS RECENTLY HAS GENERATED SOME CONCERN OVER FOREIGN DOMINANCE OF THIS SECTOR BUT FOREIGN BANKS ALSO HAVE STRONG DEFENDERS LOCALLY.

ALTHOUGH LEBANON PRESENTLY IS, RELATIVE TO ITS SIZE, ONE OF THE REGION'S MORE INDUSTRIALIZED COUNTRIES, AMERICAN INVOLVEMENT IN MANUFACTURING REMAINS MODEST. GOVERNMENT POLICY TOWARD FOREIGN INVOLVEMENT IN THIS SECTOR IS STILL EVOLVING; IT SEEMS TO FAVOR THE TRANSFER OF TECHNOLOGY AND DISCOURAGE COMPETITION WITH EXISTING INDUSTRY. TAX AND TARIFF BENEFITS ARE AVAILABLE LIMITED OFFICIAL USE

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TO CERTAIN NEW INDUSTRIES. SOME LEBANESE EXPORTS ENJOY TARIFF CONCESSIONS IN THE EEC AND IN OTHER ARAB COUNTRIES BUT PHYSICAL ACCESS OVERLAND TO ARAB MARKETS IS A PROBLEM OCCASIONALLY DUE TO THE REGIONAL PENCHANT FOR CLOSING BORDERS OR EMBARGOEING TRADE DURING POLITICAL DISPUTES. THE CREATION THIS YEAR OF A MINISTRY OF INDUSTRY AND PETROLEUM AFFAIRS SHOULD CLARIFY POLICY AND MAY HASTEN INDUSTRIALIZATION.

RECENT AMERICAN EXPERIENCE IN THE INDUSTRIAL SECTOR HAS BEEN MARRED BY LENGTHY DISPUTES BETWEEN THE LEBANESE GOVERNMENT AND THE ONLY ECONOMIC SECTOR DOMINATED BY FOREIGNERS, THE OIL INDUSTRY, IN WHICH AMERICAN FIRMS ARE PROMINENT. THE MARCH 1973, TAKEOVER OF THE IRAQ PETROLEUM COMPANY BY THE GOVERNMENT REMAINS UNRESOLVED. SINCE AUGUST 1973 THE GOVERNMENT HAS BEEN REQUISITIONING CRUDE OIL FROM THE TRANS-ARABIAN PIPE LINE COMPANY AS A RESULT OF A DISPUTE OVER OIL PRICES WITH THE MEDRECO REFINERY AT THE LINE'S TERMINUS, AN EXAMPLE OF LOCAL SENSITIVITY TO PRICE INCREASES WHEN INFLATION IS A LEADING POLITICAL ISSUE.

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CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

CEA-02 TAR-02 SAM-01 FEA-02 INT-08 PM-07 DRC-01 /145 W

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R 231350Z APR 74

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2. (LOU) OF DIRECT INVESTMENT STATISTICS REQUESTED BY REFTEL, ONLY DIRECT INVESTMENT BOOK VALUE ESTIMATES ARE AVAILABLE, AS FOLLOWS IN MILLIONS OF DOLLARS:

TOTAL, ALL INDUSTRIES	51.8
PETROLEUM	15.3
MINING	NIL
MANUFACTURING	6.5
OTHER	30.0
(OF WHICH, BANKING IS 18.2)	

3. (LOU) IT IS REQUESTED THAT ONLY THE TOTAL FIGURE ABOVE BE PUBLISHED IN UNCLASSIFIED FORM AT THIS TIME. SOME OF ABOVE DATA WAS OBTAINED DIRECTLY FROM COMPANIES UNDER PROVISIO THAT NOTHING BE PUBLISHED WHICH WOULD HARM THEIR INTERESTS. PUBLICATION OF SPECIFIC BOOK VALUE FIGURE FOR PETROLEUM SECTOR WOULD PROBABLY HARM NEGOTIATING POSITION OF IRAQ PETROLEUM COMPANY TAKEN OVER BY GOL 13 MONTHS AGO. IN INITIAL DISCUSSIONS, COMPANY'S CLAIM FOR COMPENSATION IS CONSIDERABLY HIGHER THAN PETROLEUM SECTION TOTAL.

4. (LOU) COMMENT ON METHODOLOGY: TOTAL OF \$50.5 MILLION BOOK VALUE FOR 1972 IS CONSIDERABLY BELOW LAST YEAR'S LIMITED OFFICIAL USE

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ESTIMATE OF \$110.6 FOR 1971, DUE BOTH TO A LARGE DIS-INVESTMENT AND TO CORRECTION OF PREVIOUS ESTIMATES ON FILE. SPECIFICALLY: PETROLEUM --- DIRECT REQUEST TO ALL FIRMS THIS SECTOR FOR NET BOOK VALUE REVEALED THAT 1971 FIGURE ESTIMATED FROM FILES INCLUDED GROSS BOOK VALUE FOR SOME FIRMS. 1972 FIGURE GIVEN HERE IS FIRM NET BOOK VALUE FOR THIS SECTOR PROVIDED BY FIRMS. MANUFACTURING --- NO SURVEY MADE, ESTIMATED FROM FILES. OTHER --- PARTIAL SURVEY CONDUCTED FOR 1972 REASULTED IN MODERATE DOWNWARD ADJUSTMENT BUT BANKING SECTOR PRESENTS MEANSUREMENT PROBLEMS IN CASES WHERE LARGE BAD DEBT LOAD EXISTS. LARGEST ADJUSTMENT THISSECTOR IS \$11 MILLION DISINVESTMENT, FROM \$22 TO \$11 MILLION, IN COMMODITY CREDIT CORP. SHARE IN INTRA INVESTMENT CO, THE FORMER INTRA-BANK WHICH CRASHED IN 1966. THIS ITEM WILL CONTINUE TO DECREASE IN FUTURE YEARS.
DECON 4/22/76.
GODLEY

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, PETROLEUM, FOREIGN INVESTMENTS, INVESTMENT DATA, POLITICAL SITUATION
Control Number: n/a
Copy: SINGLE
Draft Date: 23 APR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974BEIRUT04752
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740095-0148
From: BEIRUT
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740423/aaaaattr.tel
Line Count: 206
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: STATE 053993; BEIRUT A70 OF 3/23/73
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 21 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 AUG 2002 by boyleja>; APPROVED <12-Sep-2002 by MorefiRH>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FOREIGN INVESTMENT CLIMATE AND STATISTICS: LEBANON
TAGS: EIND, EFIN, LE
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005